



Course: Finance 646, Corporate Finance

Instructor: Professor Grennan, jillian.grennan@duke.edu

Course dates: Mondays and Thursdays from November 30, 2020 through January 28, 2021

Final exam period: February 1-3, 2021

Administrative Overview:

Instructor: Professor Grennan, jillian.grennan@duke.edu,

Office hours: by appointment, please email me to setup a Zoom chat

Teaching assistants:

1. Julius Xing, julius.xing@duke.edu, MBA student
2. Serena Giuseppina De Lorenzi, serenagiuseppina.de.lorenzi@duke.edu, PhD student
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Questions or chat: please email the TAs if you have any questions about the case assignment or questions about the material, especially when preparing for the midterm and final exams

Course overview:

In Corporate Finance, we will examine important issues for a firm from the perspective of the chief financial officer (CFO). Throughout the course, it will be assumed that the CFO's job is to maximize firm value. We will learn to act like the CFO by studying three decisions where a corporate finance mindset is required to execute on optimal value creation:

- (1) **Investment decisions** – Value comes from taking care of today's business and taking care of tomorrow's business by investing wisely. We will apply a variety of corporate valuation models to assess potential investments, acquisitions, and divestitures. The common theme across the decisions will be honing your ability to determine if a return can be earned that is greater than the minimum acceptable rate of return.
- (2) **Financing decisions** – All firms must compete in a marketplace for scarce capital. Hence, the CFO plays a critical role in ensuring financing for the firm's investments. You will examine the factors that determine the need for raising external financing from various lenders and investors. We will also study how market frictions may affect your ability to raise financing. In doing so, you will learn about different types of financing (e.g., debt vs. equity, short vs. long-term). The common theme will be to find the right kind of capital to match your firm's optimal mix of debt and equity.
- (3) **Payout decisions** – The best CFOs dexterously navigate among competing priorities, including investments, paying down debt, and returning cash to shareholders. You will learn the pros and cons of alternative payout policies and review the tradeoff

between paying dividends vs. repurchasing shares. We will also learn about the possibility of retaining strategic cash for flexibility and of providing incentivizing cash via alternative compensation schemes.

Course pace and logistics:

The course is roughly evenly split between tools and applications. We will spend about half our time mastering the tools that lay beneath all modern financial decision-making. Broadly speaking, this involves discounted cash flow analysis that appropriately takes into account the risk and return tradeoffs the CFO faces. While the course is not designed to dwell on abstraction, the basic theoretical underpinnings of the various topics are a prerequisite to competent analysis. However, throughout the course, we will work to develop problem-solving skills based on a solid understanding of the business environment as opposed to pure theorizing or mindless numbers exercises. Given the practical importance of the material, we will discuss several examples. Mastery of the material can be time-consuming, so please allow for meaningful time commitment. Please go to the class website prior to each class to see if there are any updates. Class sessions will be recorded and made available online. But I do expect you to read the assigned material from the coursepack and to be ready to participate in class discussions.

Virtual logistics and classroom norms:

- The general Fuqua norms of promptness, courtesy and preparedness still apply in the online environment.
- In the Zoom environment, it would be great if you could please set it up as a split screen environment. This would allow for you to see the content that I'm sharing (slides, etc...), a gallery view of all of us. Then, also please open the chat from the bottom tool box.
- Please mute your microphone on Zoom until you want to speak.
- Please raise your hand on Zoom (available as part of the participants tool) when you have something to say and lower your hand when the opportunity passes (alternatively, feel free to input a clarifying question into the chat as the TA is watching it). That being said, please only put course relevant content in the chat.
- Please close all browsers and turn off phone and email for the duration of class.
- Participation is not limited to statements made during video sharing, if you have a question or thought, please type it in the chat and I will monitor it so that I can periodically read out comments from there and respond.
- Please try to listen carefully to the professor, to your classmates.
- Please keep your video recording active when possible. It helps us feel connected. If you have potential disruptions in the room with you (e.g., you are eating, kids are playing), it is okay to switch to non-video mode.
- Please be respectful and kind of others' comments and ideas.

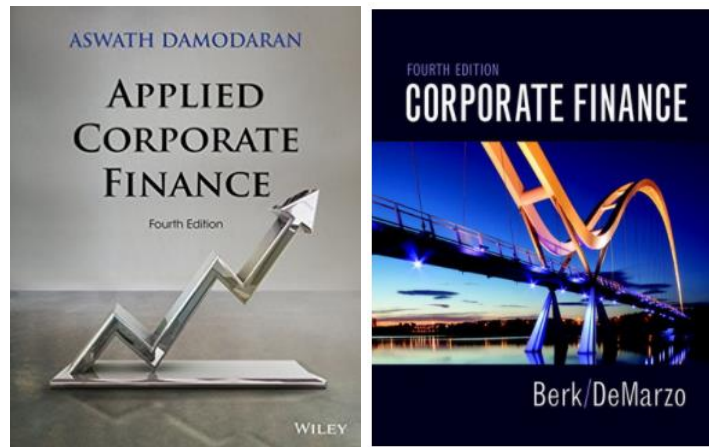
Coursepacks and lecture notes:

Required for the course is a coursepack, which includes the cases that are covered in the course as well as relevant articles from Harvard Business Review. Lecture notes are made available online prior to the start of class. I will post annotated versions of my lecture notes after class but I encourage you to take your own notes as well during class. All excel examples from class will be available on the course website.

Textbooks:

There is no assigned textbook for course. I provide page references for the material covered in class in two textbooks.

1. *Corporate Finance*, Pearson, by Jonathan Berk and Peter DeMarzo, which was used in the core. Berk and DeMarzo page numbers and chapters change between various editions (so I will try to highlight the title and keywords for the table of contents).
2. *Applied Corporate Finance*, 4th Edition, by Aswath Damodaran If you are interested in obtaining a copy of Damodaran, his book is available here to purchase in digital or print.
<http://smile.amazon.com/Applied-Corporate-Finance-Aswath-Damodaran/dp/1118808932/>

**Grading:**

By default, the course grade will be based on one midterm exam (35%), one final exam (35%), a final case report is to be done in teams (20%), and participation (10%). The midterm and final exams are weighted equally by default. However, if your score on the final exam is better than your score on the midterm exam, your final exam will be given twice the weight of your midterm exam (i.e., 2/3 and 1/3 of 70%). The two exams will take place during the following sessions:

- Midterm exam: open from Friday January 8th through Monday, January 11th, 2021. The exam will cover the material from before winter break (investment and some financing material). You will have access to the exam window from Friday through Monday. The exam itself is designed to be completed in 2-3 hours and you have up to 24 hours within the multi-day window to complete it. That being said, the exam does hard close at midnight on January 11th.
- Final exam: Like the midterm exam, the final exam is designed to take about 2-3 hours. To accommodate asynchronous learning schedules, the final exam will be offered from February 1st-3rd and you will have 24 hours to complete it once you open it. The exam does close permanently at midnight on the 3rd so for the full 24 hours please open before.
- Both exams are open-book exams, i.e., you can consult the course materials, internet, etc.. while taking them. They are both to be completed online.

Alternative exam dates:

I recognize that this academic year has brought about some unexpected and extraordinary events. Therefore, I built in meaningful flexibility in the timing of when you take the exam, if you cannot take the mid-term for whatever reason, I will simply plan to count your final exam as the entirety of your exam weight in the final grade. Should the need arise to take the final exam outside of the exam week window, please obtain official approval from the registrar and/or the MBA program office and I will be happy to accommodate it.

Regrading policy:

Regrade requests for each exam must be made within one week after the graded exams are distributed back to students. All such requests require you to email me and precisely state in writing what you think is graded incorrectly and why. In making your requests, please keep in mind that the whole exam is subject to regrading.

Casework:

Preparation for the team case is done in groups of four or five that you select and form prior to the holiday break. There is one case assignment in this course that must be turned in for a grade.

- Generating Higher Value at IBM, presented in class January 28th, 2020, due at midnight on Wednesday, January 27th, 2020.

The capstone case is an integral part of the course design. I will provide you with a set of questions designed to help guide and focus (but not overly constrain) your analysis. Critically evaluate the information provided in the case. Identify the relevant issues, and list alternative courses of action when appropriate. Determine a specific answer or recommendation and fully develop the supporting logic. Each team member receives the same case grade. At the end of the term, students will have the chance to rate their teammates and this will be incorporated into the class participation grade to account for potential lower or higher effort by teammates.

1. Cover page: The cover page clearly lists the names of all group members.
2. Executive summary: One page, double-spaced, with bullet points of main findings and key arguments.
3. Case analysis: Each write-up should include 3-4 pages of analysis (typed). This includes any screenshots of excel files or charts and figures. The cover page and the executive summary do not count towards the 3-4 pages of analysis. Your write-up should address the questions for the case.

Participation:

Class is more fun when you ask questions and are engaging with the material. Attendance and active online participation account for 10% of your grade. Given potential time zone differences that lead to watching content asynchronously, in lieu of class participation, please send me an email based on one of the "Reflection" questions in class. Alternatively, you could also volunteer to present your final case live to make-up for inability to actively participate.

Practice questions for the exam:

In addition to the lecture notes and coursepack materials, prior to the exams, practice problems that mimic the style of the exam will be distributed. The practice problems contain some problems that have been previously used on exams. Further, the practice problems are structured to reinforce the major themes in the course and to provide a flavor for what might be encountered on the real exam. Write-ups for these are not collected or graded but you should consider them mandatory. Questions related to the practice problems or lectures can be addressed in office hours.

Review for exams:

The TA will conduct review sessions as needed throughout the course but certainly before the final exam to ensure that you have ample opportunity for practice and to have your questions answered.

Final note:

Although the syllabus and course assignments have been carefully created and reviewed, there are occasionally new and unanticipated questions or insights. When points arise that will benefit the class, you will receive an email with information or we will share updates in class. This note is especially important given the uncertainties created by Covid-19.